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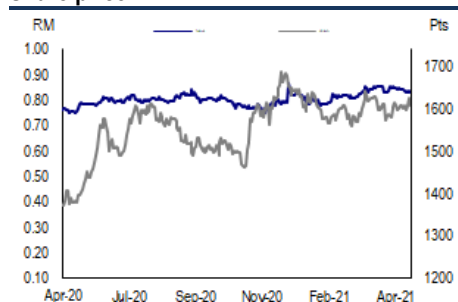
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**Edwin Woo, CFA**[ckwoo@hlib.hongleong.com.my](mailto:ckwoo@hlib.hongleong.com.my)**(603) 2083 1718****BUY** (Maintain)**Target Price: RM0.96****Previously: RM0.96****Current Price: RM0.83**

Capital upside	15.7%
Dividend yield	8.0%
Expected total return	23.7%

**Sector coverage:** Water

**Company description:** Taliworks is involved in water and waste-related businesses. It has expanded its core expertise to include highway management and construction & engineering.

**Share price**

Historical return (%)	1M	3M	12M
Absolute	1.8	1.4	0.0
Relative	-4.5	5.3	1.9

**Stock information**

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1673
3-mth average volume ('000)	694
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

**Major shareholders**

Tali Eaux Sdn Bhd	19.0%
Water Clinic Sdn Bhd	13.4%
Sethu Vijay Vijendra	9.0%

**Earnings summary**

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	59.5	51.5	55.7
EPS - core (sen)	3.0	2.6	2.8
P/E (x)	28.1	31.8	31.0

**Taliworks Corporation****Steady as always**

Taliworks's 1HFY21 core PATAMI of RM25m (-9.6% YoY) was within ours but below consensus expectations. DPS of 1.65 sen was declared as expected. Performance from its water segment should remain steady while its toll division could benefit from looser restrictions moving ahead. Taliworks might also secure construction work from upcoming WTP projects. Maintain forecasts and BUY with unchanged SOP-driven TP of RM0.96. We continue to like Taliworks for its consistent earnings delivery amidst pandemic uncertainties bolstered by an attractive dividend profile of 8.0%. Key downside risk includes protracted restrictions from Covid-19 SOPs.

**Within expectations.** Taliworks reported 2QFY21 results with revenue of RM61.9m (-5.6% QoQ, -18.6% YoY) and core PATAMI of RM12.6m (1.4% QoQ, 7.4% YoY). This brings 1HFY21 core PATAMI to RM25.0m, decreasing by -9.6%. Results were within our but slightly below consensus at 48% and 41% of full year forecasts.

**Dividends.** DPS of 1.65 sen was declared for the quarter (going ex on 7 Sept 2021). Dividend payment is in-line with our expectations of 1.65 sen per quarter.

**QoQ.** Core PATAMI registered marginal increase of 1.4% despite revenue declining by -5.6% aided by higher margins from its construction business (reversal of retention sum losses) and lower minority interests as contribution from its Cheras-Kajang highway was lower chalking up a lower ADT of -17.1%.

**YoY.** Core PATAMI increased by 7.4% offsetting revenue decline of -18.6% driven by RM3m swing to profitability by its associate (SWM) and lower finance costs (-7.8%) having retired two tranches of its IMTN. We note that the revenue decline resulted from cessation of Taliworks Langkawi which contributed RM14m (revenue) and marginal operating loss of -RM676k in 2QFY20.

**YTD.** 1HFY21 earnings fell by -9.6% brought about by lower metered sales at SSP1, expiration of Langkawi water operations and lower net returns from investments.

**Water segment.** Revenue declined by -29% resulting from: (1) expiration of Taliworks Langkawi (31-Oct-20) and (2) lower metered sales and electricity rebates for its SSP1 operations. Excluding Langkawi, metered sales at SSP1 declined by -1.6% with average MLD marginally lower by -1.1% during the period. The segment is poised to benefit from steady contribution from SSP1.

**Tolls.** Revenue contribution from Cheras-Kajang highway increased by 2% driven by improving ADT of 2.7% YoY. We believe the recovery was derailed by NRP Phase 1 in June. Nonetheless, performance was still better than 2QFY20 which was dragged by MCO1.0. Grand Sepadu's ADT came in higher by 7.7% YoY on the back of low base effect as well as redirection of traffic from closure of the old bypass. We anticipate further rebound in ADT in in-line with loosening restrictions moving forward.

**Forecast.** Maintain forecasts given in-line earnings performance.

**Maintain BUY, TP: RM0.96.** Maintain BUY with same SOP-driven TP of RM0.96. Taliworks's defensive source of earnings should anchor its healthy sustainable yields of 8.0% for FY21-22. We continue to like Taliworks for its consistent earnings delivery amidst pandemic uncertainties bolstered by an attractive dividend profile. Key downside risk includes protracted restrictions from Covid-19 SOPs.

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	76.1	65.6	61.9	(5.6)	(18.6)	160.4	127.5	(20.5)
EBITDA	27.2	25.9	24.7	(4.5)	(9.2)	65.0	50.6	(22.2)
Finance cost	(5.2)	(4.7)	(4.8)	2.0	(7.8)	(10.8)	(9.4)	(12.5)
Share of results of JV	0.0	0.4	0.2	(48.4)	404.9	0.2	0.6	208.6
Share of results of associate	(1.0)	2.3	2.3	(2.6)	(336.5)	(4.3)	4.6	(206.1)
PBT	15.7	16.7	16.2	(3.3)	3.0	36.9	32.9	(10.7)
PAT	12.0	13.8	13.3	(3.6)	10.3	29.5	27.0	(8.4)
Core PATMI	11.7	12.4	12.6	1.4	7.4	27.6	25.0	(9.6)
Reported PATMI	11.7	12.4	12.6	1.4	7.4	27.6	25.0	(9.6)
Core EPS (sen)	0.6	0.6	0.6	1.4	7.4	1.4	1.2	(9.6)
EBITDA margin (%)	35.8%	39.4%	39.9%			40.6%	39.7%	
PBT margin (%)	20.6%	25.5%	26.1%			23.0%	25.8%	
PATMI margin (%)	15.4%	18.9%	20.3%			17.2%	19.6%	

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**Figure #2** SOP valuation for Taliworks

Sum of parts	Multiplier	Cost of Equity	Value	Stake	Value	Per Share
	(x)	(%)	(RM m)		(%)	(RM m)
Highway Assets						
Cheras- Kajang Highway		7	538		51	274
NNKSB		7	269		45	111
Water Operations						
SHSB & Taliworks Langkawi		8	578		100	578
Solid Waste Management						
SWME based on acquisition price			700		35	245
Construction	6		8		100	8
Receivables owed by SPLASH						714
Net Cash and financial assets						20
<b>SOP Valuation</b>						<b>1,951</b>
						<b>0.96</b>

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## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	716.0	504.4	458.3	380.5	319.1
Receivables	148.1	125.5	105.5	105.5	95.5
Inventories	1.2	2.9	2.9	2.9	2.9
PPE	12.2	8.9	10.2	11.1	11.8
Others	1,476.1	1,433.3	1,409.6	1,384.6	1,358.0
<b>Assets</b>	<b>2,353.5</b>	<b>2,075.0</b>	<b>1,986.4</b>	<b>1,884.5</b>	<b>1,787.2</b>
Payables	211.0	94.9	107.2	105.8	107.4
Debt	467.6	403.5	373.5	343.5	313.5
Others	382.0	368.9	368.9	368.9	368.9
<b>Liabilities</b>	<b>1,060.6</b>	<b>867.3</b>	<b>849.6</b>	<b>818.1</b>	<b>789.7</b>
Shareholder's equity	1,032.9	959.3	878.8	799.7	723.1
Minority interest	260.0	248.4	255.4	262.8	270.5
<b>Equity</b>	<b>1,292.9</b>	<b>1,207.7</b>	<b>1,134.2</b>	<b>1,062.5</b>	<b>993.6</b>
	-	-	2.6		

### Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	87.9	78.5	78.4	80.8	84.7
D&A	35.8	32.0	29.8	30.1	30.3
Working capital	(214.1)	(71.8)	32.3	(1.4)	11.6
Taxation	(23.1)	(15.0)	(18.9)	(19.5)	(20.5)
Others	34.8	15.3	19.9	18.4	18.7
<b>CFO</b>	<b>(78.7)</b>	<b>39.1</b>	<b>141.6</b>	<b>108.3</b>	<b>124.8</b>
Others	714.0	230.1	-	-	-
<b>CFI</b>	<b>714.0</b>	<b>230.1</b>	<b>(5.0)</b>	<b>(5.0)</b>	<b>(5.0)</b>
Changes in debt	20.5	(64.1)	(30.0)	(30.0)	(30.0)
Shares issued	-	-	-	-	-
Dividends	(96.8)	(133.0)	(133.0)	(133.1)	(133.1)
Others	(25.0)	(79.9)	(19.6)	(18.1)	(18.1)
<b>CFF</b>	<b>(101.2)</b>	<b>(277.1)</b>	<b>(182.7)</b>	<b>(181.2)</b>	<b>(181.2)</b>
<b>Net cash flow</b>	<b>534.1</b>	<b>(7.9)</b>	<b>(46.1)</b>	<b>(77.8)</b>	<b>(61.4)</b>
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	89.8	716.0	504.4	458.3	380.5
Ending cash	716.0	504.4	458.3	380.5	319.1

### Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	377.1	317.9	291.4	290.6	297.9
EBITDA	158.5	128.9	127.4	128.7	133.2
EBIT	122.7	96.9	98.4	99.2	103.4
Finance cost	(25.0)	(21.2)	(19.6)	(18.1)	(18.1)
Associates & JV	(9.8)	2.8	(0.3)	(0.3)	(0.6)
Profit before tax	87.9	78.5	78.4	80.8	84.7
Tax	(23.1)	(15.0)	(18.9)	(19.5)	(20.5)
Net profit	64.8	63.5	59.5	61.4	64.2
Minority interest	10.0	4.0	7.0	7.4	7.7
<b>Core PATAMI</b>	<b>54.8</b>	<b>59.5</b>	<b>52.5</b>	<b>54.0</b>	<b>56.5</b>
Exceptionals	(21.6)	-	-	-	-
Reported PATAMI	76.5	59.5	52.5	54.0	56.5
	110.5	92.7	88.9	91.2	94.7
	0.055	0.046	0.044	0.045	0.047

### Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	2.7	3.0	2.6	2.7	2.8
P/E (x)	30.5	28.1	31.8	31.0	29.6
EV/EBITDA (x)	9.0	12.2	12.5	12.7	12.5
DPS (sen)	4.8	6.6	6.6	6.6	6.6
Dividend yield	5.8	8.0	8.0	8.0	8.0
BVPS (RM)	0.6	0.6	0.6	0.5	0.5
P/B (x)	1.3	1.4	1.5	1.6	1.7
EBITDA margin	42.0	40.6	43.7	44.3	44.7
EBIT margin	77.4	75.2	77.2	77.0	77.6
PBT margin	23.3	24.7	26.9	27.8	28.4
Core PATAMI margin	14.5	18.7	18.0	18.6	19.0
ROE	5.3	6.2	6.0	6.8	7.8
ROA	2.8	3.1	3.0	3.3	3.6
Net gearing	CASH	CASH	CASH	CASH	CASH

### Assumptions

FYE Dec	FY19	FY20	FY21f	FY22f	FY22f
<b>Water Output (m m<sup>3</sup>)</b>					
- SHSB	361.0	349.2	359.7	368.3	375.7
- Taliworks Langkawi	20.4	16.9	0.0	0.0	0.0
<b>Traffic Volume (m)</b>					
- Cheras-Kajang Highway	54.1	43.4	47.7	48.2	48.7
- NNKSB	34.1	27.7	30.1	31.0	31.9

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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